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May 1, 2003

EX PARTE

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
The Portals
445 12th St. SW
Washington, D.C. 20554

Re: CC Docket 02-33

Dear Ms. Dortch:

On April 30, 2003, the following persons representing BellSouth met with Staff of the Competition Policy Division: David Scobey, John Irwin, Jon Banks, Barbee Ponder and the undersigned.

Commission staff in attendance at this meeting were Tom Navin, Teri Natoli, Cathy Carpino, Michael Carowitz, Darryl Cooper, Gail Cohen, Ben Childress and Bill Dever.

The attached presentation formed the basis of this meeting. Pursuant to Section 1.1206 (b)(2) of the Commission rules please include this notice in the record of the proceeding identified above.

Sincerely,



Glenn T. Reynolds

Cc: Tom Navin
Teri Natoli
Cathy Carpino
Michael Carowitz
Darryl Cooper
Gail Cohen
Ben Childress
Bill Dever

BellSouth Small Business Services

Competitive Situation

April 30, 2003

BellSouth Small Business Services Profile

- BellSouth Small Business Services (SBS) has a large and diverse customer base of 900,000 customers and 1.2M customer locations
- Over 450,000 customer locations have only one access line and spend <\$100/month on local telecom – these customers look and act much like residential customers
- Customers range in size from 1-200 employees
- SBS currently serves about 122,000 small business FastAccess DSL customers
- Approximately 50% of customers in the small business market have broadband potential over the next three to five years

Why and How CLECs focus on Small Business





- High margins
 - Social pricing
 - Attractive UNE-P and resale options
- Selective targeting of small business customers
 - Focus on metro areas with lowest UNE-P rates
 - No carrier of last resort obligations
- Leverage key marketplace advantages
 - Compete on price
 - Minimal regulatory restriction on sales practices

Available Small Business Product Portfolio

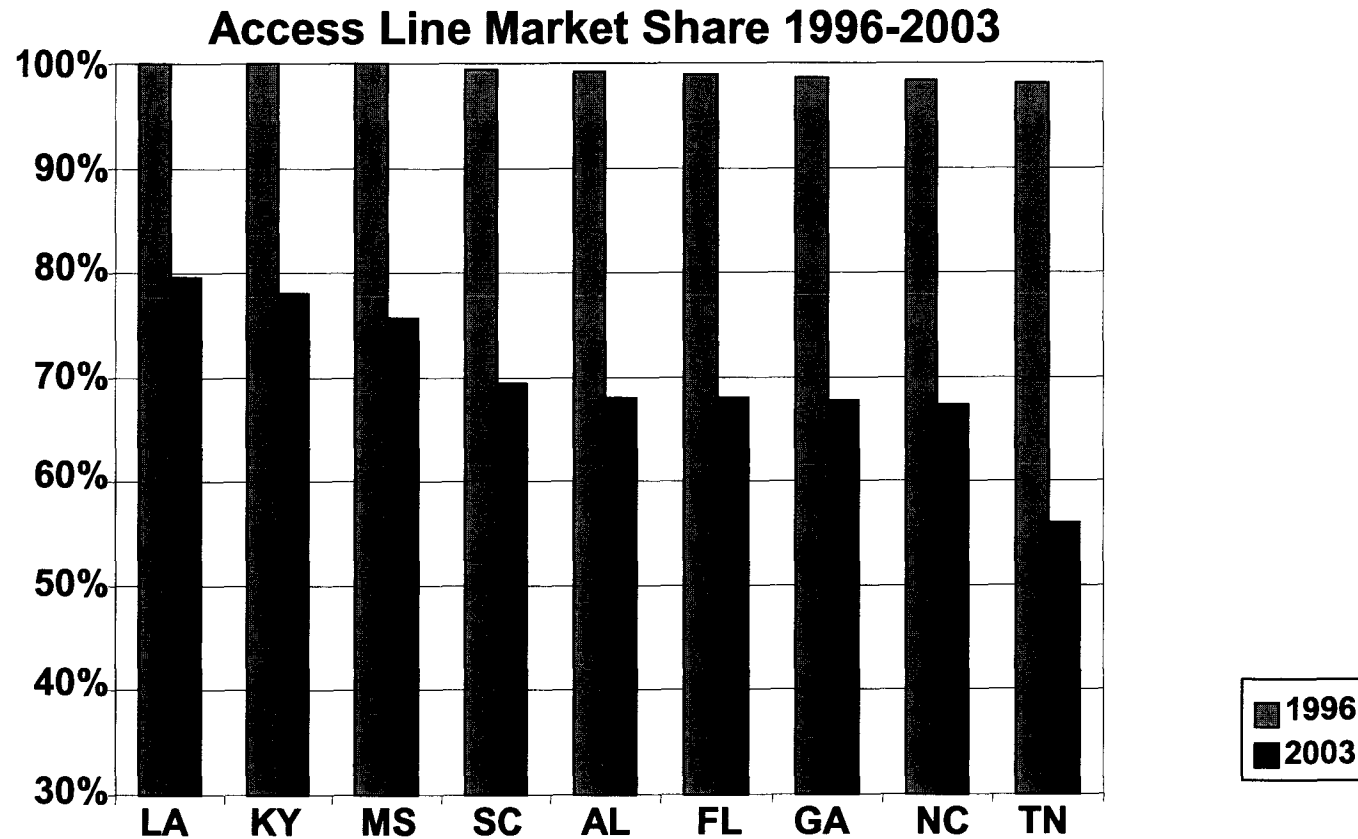
Small Customer (1- 3 Lines)	Medium Customer (4-7 Lines)	Large Customer (8+ Lines)
<ul style="list-style-type: none">• Access Lines• Verticals• Voice Mail• Narrowband ISDN/Dial• Broadband Cable/DSL	<ul style="list-style-type: none">• Access Lines• Verticals• Voice Mail• Narrowband ISDN/Dial• Broadband Cable/DSL• Integrated T1	<ul style="list-style-type: none">• PBX/Centrex• Voice Mail• Broadband Cable/DSL• Integrated T1/Frame Relay/T1• Dedicated Internet Access

Current Competitive Landscape

There are a variety of Competitive strategies in the Small Business Market

 <ul style="list-style-type: none"> • Leverage UNE-P and current LD customer relationships to acquire mass market customers (1-3 lines) • Use UNE-EEL platform to offer integrated access (5+lines) • Offer 1FBs leveraging both UNE and loop facilities to pursue all SBS customers • Use unlimited plans to gain LD and local share (WCOM) 	 <ul style="list-style-type: none"> • While select CLECs leverage UNE-P and UNE-loop facilities at aggressive discounts to BellSouth tariff rates, others pursue a pure UNE-P resale strategy to maximize reach • Pursue customers of all sizes, but are primarily focused on customers with 1 - 8 lines 	 <ul style="list-style-type: none"> • Leverage a UNE-EEL platform to offer integrated access (voice and high speed data) • Target business customers with more complex telecom needs and at least 6 business lines • Target price-sensitive stand-alone voice and DSL customers with need for higher bandwidth 	 <ul style="list-style-type: none"> • Focus on entry level broadband business needs • Use of residential offering to small businesses creates significant price advantage in the market • Migration of broadband customers to VoIP as technology matures
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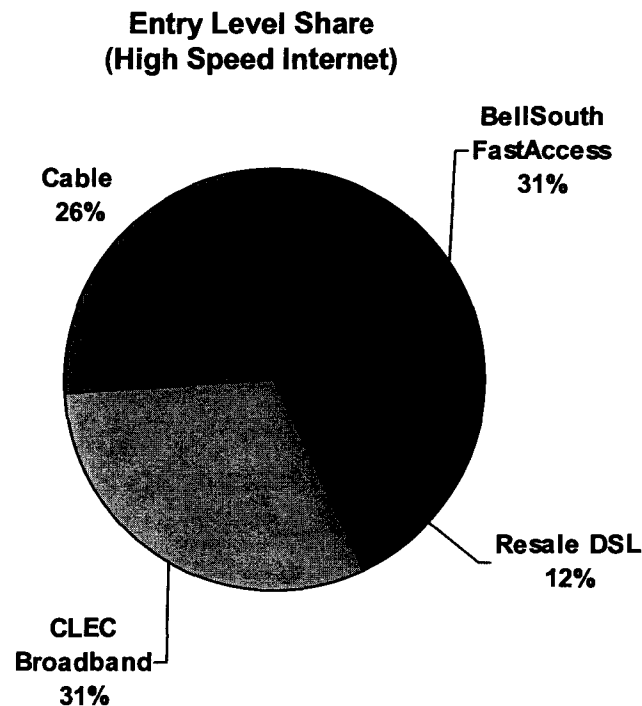
Current BellSouth Small Business Market Share Position



Competitors continue to increase market share in the small business space

Source: Internal BLS metrics

Small Business - Entry Level High Speed Share Analysis

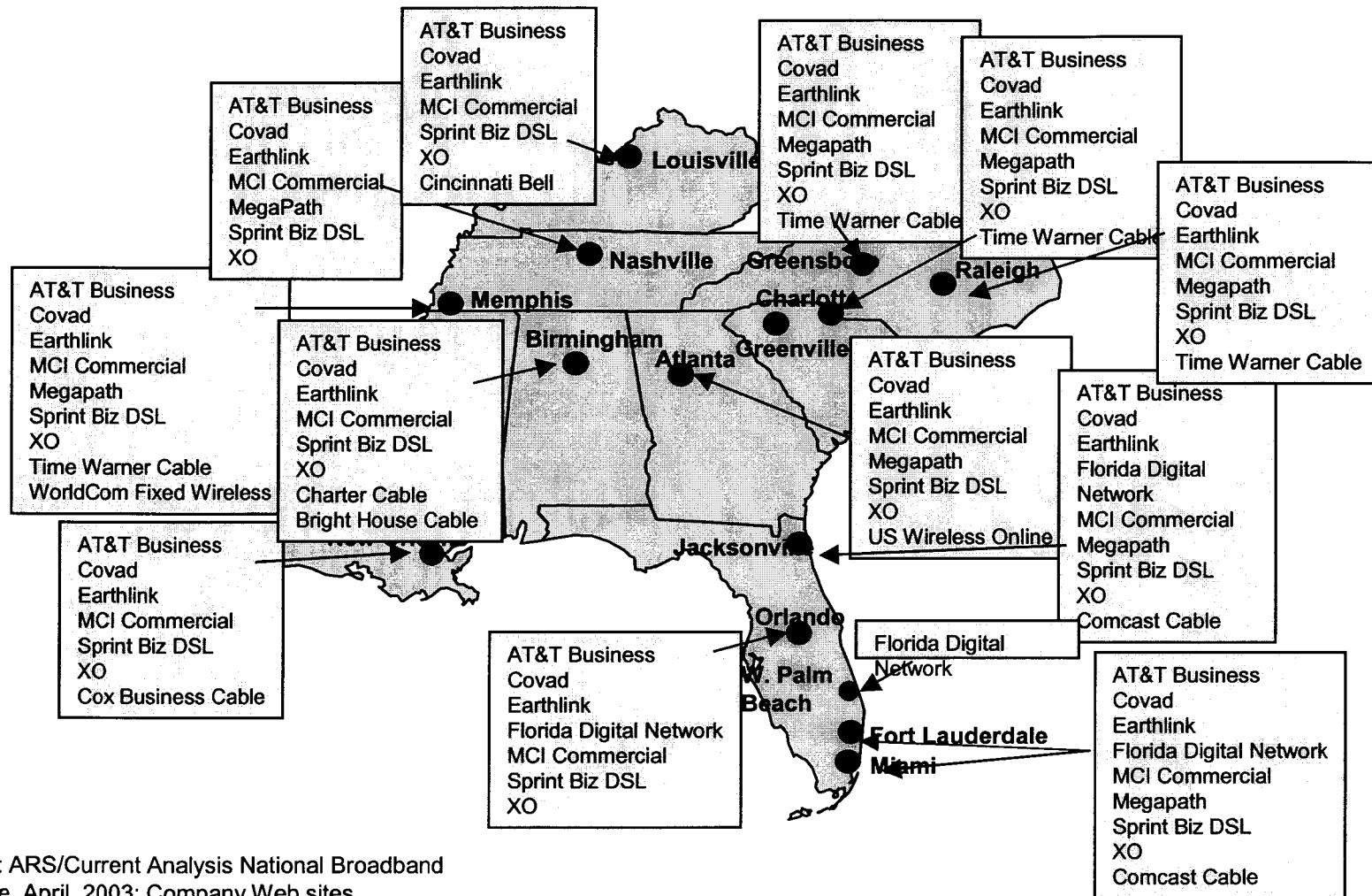


- BellSouth FastAccess currently has 31% of the entry level high speed Internet market
- Small Business FastAccess DSL network covers 60% of Southeast while cable covers over 70%
- ISPs and CLEC's are also formidable competitors – they leverage attractive price points to gain share
- Larger customers have a broad variety of other options for internet access (i.e., T-1, integrated access, dedicated internet access, ISDN and frame relay) and providers

Source: Internal BLS analysis of aggregation of Yankee Group, IDC and Cahners InStat Broadband market studies

Business High Speed Providers by Market

While competitors with business-specific broadband offerings vary by market, cable and satellite broadband offerings provide wide broadband coverage to small businesses



Sources: ARS/Current Analysis National Broadband Database, April 2003; Company Web sites.

High Speed Competitive Offers in the Business Market

High Speed Competitive Offers in the Business Market		
DSL Reseller	EarthLink	EarthLink Small Office – 1500/384 \$89.95
	AT&T	Business Single User -- 1500/384 \$79.95
	Covad	Business Single User – 1500/256 \$69.95
Cable Residential	Charter Cable	Residence Single User – 1500/256 (residence offer used with small businesses) \$39.95
	Comcast	Residence Single User – 1500/256 (residence offer used with small businesses) \$32.95
Cable Business	Time Warner	Business dynamic IP – 2000/384 \$79.95
	Charter Cable	Multi user/Static IP -- 2500/256 \$155.00
	Cox Cable	Multi user/Static IP – 1500/256 \$179.00

Competitors in the broadband space can compete effectively with both price and service in the small business market

Source: Internal BLS market research

Backup Slides

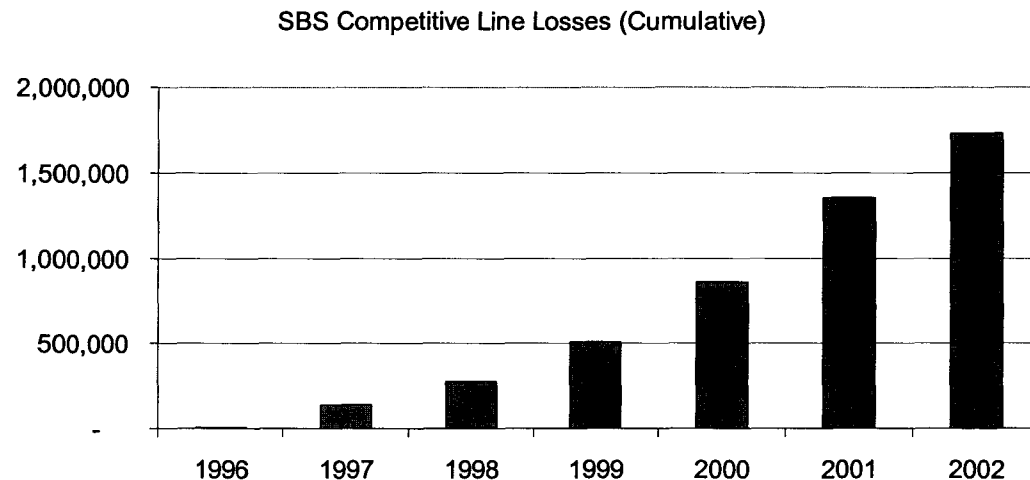
Shortfalls of UNE-P Pricing


- UNE-P does nothing to enhance facilities based competition
- UNE-P competitors are not fledgling entrants deserving of public policy protection; they have considerable telecommunications assets and operations of their own
- It ignores the emergence of facilities based competition from CLEC carriers
- Discourages investment by incumbent carriers
- Facilities based CLECs see UNE-P as a threat

UNE-P “threatens to harm those CLECs that have built their own facilities and do not need to rely on the UNE-P to serve customers”

- Allegiance Telecom -- Ex Parte Letter from Kevin M. Joseph, Allegiance Telecom, to Magalie R. Salas, Secretary, FCC, CC Docket Nos. 96-98, 96-262, 97-146, Att. at 2 (Feb. 2, 2001)

Historical UNE-P Pricing Analysis



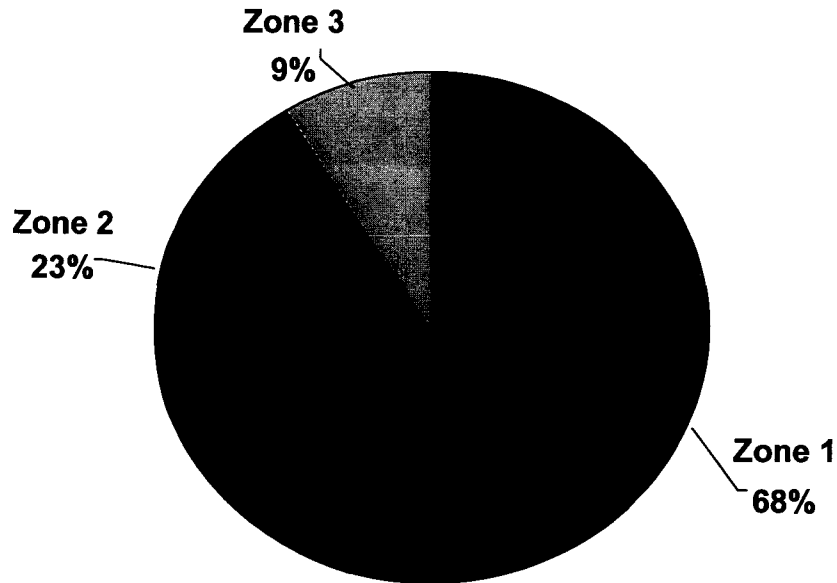
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- In 2002, SBS losses continued to accumulate while state regulators reduced UNE-P rates by an average of 31% in 7 of 9 states
 - Based on pricing surveys in 3Q02 and 1Q03, the top three CLECs in BellSouth's region have held prices flat despite UNE-P reductions

Even as BellSouth access line losses continue to mount, state regulators have chosen to decrease UNE-P rates, while major competitors have maintained price levels and increased profit margins

Source: Internal BLS state regulatory and marketing metrics

GA UNE-P Pricing-Example

Access Lines in Service



Zone 1 (Urban)	-35%	\$10.22
Zone 2 (Suburban)	-14%	\$15.35
Zone 3 (Rural)	+31%	\$31.04
Statewide		\$13.20

Resale rate is lower than UNE-P in this zone, so price increase has no impact on CLECs

Rate actually lower than UNE-Loop rate

A recent GA regulatory ruling shows how state regulators have focused on needs of competitors rather than allowing costs to drive UNE-P rates – urban rates were lowered to subsidize competition in rural areas, but resale is actually cheaper in those same rural areas

Source: Internal BLS state regulatory and marketing metrics

Current CLEC Competitive Offers

Birch	1-3 lines w/2 features - Atlanta	\$36/Month/Line	40%
	3+ lines w/hunting & 2 features – Greenville	\$44/Month/Line	32%
AT&T	1-3 lines w/2 features - Miami	\$36/Month/Line	27%
	3+ lines w/hunting & 2 features – Charlotte	\$41/month/Line	28%
AIN	1-3 lines w/2 features - Birmingham	\$35/Month/Line	27%
	3+ lines w/hunting & 2 features – Nashville	\$43/Month/Line	35%
Cbeyond	8 voice lines w/Internet, 4 features and hunting – Atlanta; additional lines at \$50/line; Price for 3 yr term	\$645/Month for 8 Lines (\$81/Line)	8%

CLECs have leveraged favorable pricing on UNE-P to provide steep discounts off BellSouth tariffs to small business customers

Source: Internal BLS market research